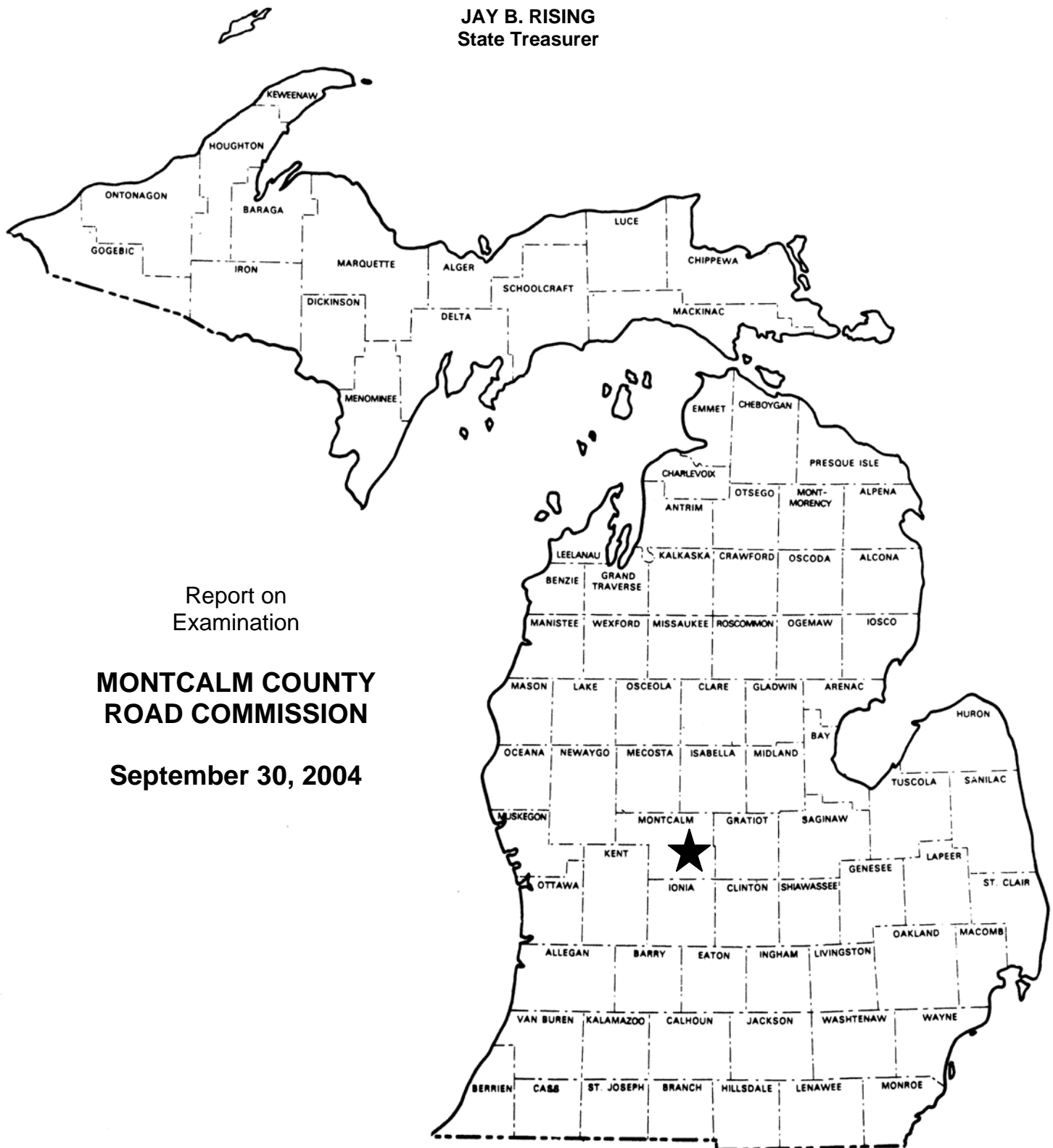


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**MONTCALM COUNTY
ROAD COMMISSION**

September 30, 2004

Local Audit and Finance Division
Bureau of Local Government Services

MONTCALM COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Dale Linton
Chairperson

Robert Brundage
Vice Chairperson

Donald McCracken
Member

Randy Stearns
Managing Director

Karen Swan
Finance Director/Clerk

COUNTY POPULATION--2000
61,266

STATE EQUALIZED VALUATION--2004
\$2,002,032,987



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

January 28, 2005

Board of County Road Commissioners
Montcalm County
619 West Main Street
P.O. Box 337
Stanton, Michigan 48888

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Montcalm County Road Commission, a component unit of Montcalm County, Michigan, as of and for the year ended September 30, 2004, which comprises the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montcalm County Road Commission as of September 30, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 7 and budget comparison information on pages 29 through 30 are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2005 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Montcalm County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits G through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a stylized flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MONTCALM COUNTY ROAD COMMISSION

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MONTCALM COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Montcalm County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Report the Road Commission's Major Fund

The fund financial statements begin on page eight and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 9.9% or \$2,270,108 from \$22,850,171 to \$25,121,683 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$435,221. The investment in capital assets, net of related debt, increased by \$2,705,329, which was primarily due to the current year's \$4,656,569 increase in infrastructure and depreciation expense (decrease) related to infrastructure of \$2,653,802.

MONTCALM COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of year ended September 30, 2004, are as follows:

	09/30/03 Governmental Activities	09/30/04 Governmental Activities	Variance Increase (Decrease)
Current and Other Assets	\$ 3,689,161	\$ 3,173,978	\$ (515,183)
Net Capital Assets	<u>22,501,798</u>	<u>24,981,150</u>	<u>2,479,352</u>
Total Assets	<u>26,190,959</u>	<u>28,155,128</u>	<u>1,964,169</u>
Current Liabilities	789,071	766,982	(22,089)
Noncurrent Liabilities	<u>2,551,718</u>	<u>2,266,463</u>	<u>(285,255)</u>
Total Liabilities	<u>3,340,789</u>	<u>3,033,445</u>	<u>(307,344)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,198,978	22,905,711	2,705,329
Restricted	<u>2,651,193</u>	<u>2,215,972</u>	<u>(435,221)</u>
Total Net Assets	<u><u>\$22,850,171</u></u>	<u><u>\$ 25,121,683</u></u>	<u><u>\$2,270,108</u></u>

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2004 follows:

	09/30/03 Governmental Activities	09/30/04 Governmental Activities	Total Percentage Change
Program Revenue			
Licenses and Permits	\$ 11,273	\$ 13,152	16.67%
Federal Grants	1,112,621	780,062	-29.89%
State Grants	5,719,652	6,275,487	9.72%
Contributions From Local Units	1,720,939	2,119,293	23.15%
Charges for Services	920,923	1,053,214	14.37%
Investment Earnings	149,617	217,565	45.41%
Reimbursements	3,340	182,199	5355.06%
General Revenue			
Taxes	1,091	524	-51.97%
Gain on Equipment Disposal	134,590	37,291	-72.29%
Total Revenue	<u>9,774,046</u>	<u>10,678,787</u>	<u>9.26%</u>
Expenses			
Primary Road Maintenance	1,408,965	1,219,084	-13.48%
Local Road Maintenance	3,349,937	3,436,392	2.58%
State Trunkline Maintenance	918,965	991,147	7.85%
Net Equipment Expense	(175,540)	(288,497)	64.35%
Net Administrative Expense	432,307	363,051	-16.02%
Non-Road Project	18,508	-	-100.00%
Infrastructure Depreciation	2,507,041	2,653,802	5.85%
Compensated Absences	10,410	(20,643)	-298.30%
Interest Expense	40,596	52,939	30.40%
Total Expenses	<u>8,511,189</u>	<u>8,407,275</u>	<u>-1.22%</u>
Increase in Net Assets	<u>\$ 1,262,857</u>	<u>\$ 2,271,512</u>	<u>79.85%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2004, the fund balance of the General Operations Fund decreased to \$2,282,866 as compared to an increase of \$1,536,874 in the fund balance for the year ended September 30, 2003 (last year). Total operating revenues were \$10,678,787, an increase of \$904,741 as compared to last year, which was primarily the result of a dividend in the amount of \$203,598, an increase in Michigan Transportation Funds of approximately \$488,740 and a reimbursement of \$165,769 from the Michigan Department of Transportation for prior years' trunkline liability insurance payments.

Total expenditures of \$11,134,652 equaled an increase of \$592,360 as compared to last year. This change in expenditures is primarily the result of an increase in heavy maintenance, an increase in winter maintenance costs, and a net reduction in administrative and capital outlay costs.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2004 was less than the actual revenue by \$212,601. This was due, in large part, to actual Michigan Transportation Funds being higher by \$341,432, higher than estimated equipment rental credits of \$180,683, higher than estimated local contributions of \$270,289, a reimbursement of \$165,769 from the Michigan Department of Transportation, a dividend of \$203,598 from the Road Commission's previous pension plan, and actual Federal Aid being \$1,405,688 less than estimated.

The Road Commission's original expenditures were projected at \$13,907,583, while actual expenditures were \$13,954,016. This resulted in total expenditures being over budget by \$193,663. This was primarily due to primary road heavy maintenance expenditures being higher by \$102,250, local road heavy maintenance expenditures being higher by \$122,619, and local road maintenance expenditures being lower by \$15,139.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2004, the Road Commission had \$24,981,150 invested in capital assets as follows:

	09/30/03	09/30/04	Variance	Total Percentage Change
Capital Assets Not Being Depreciated				
Land/Right-of-Way	\$ 33,708	\$ 33,708	-	0.00%
Land and Improvements	4,690,355	4,690,355	-	0.00%
Subtotal	4,724,063	4,724,063	\$ -	0.00%
Capital Assets Being Depreciated				
Buildings	1,359,049	2,152,022	792,973	58.35%
Road Equipment	6,146,433	6,163,166	16,733	0.27%
Shop Equipment	90,249	94,744	4,495	4.98%
Office Equipment	128,885	132,013	3,128	2.43%
Engineers' Equipment	38,043	38,043	-	0.00%
Yard and Storage	360,382	359,387	(995)	-0.28%
Infrastructure--Bridges	431,753	491,469	59,716	13.83%
Infrastructure--Roads	43,201,416	47,857,985	4,656,569	10.78%
Depletable Assets	6,750	6,750	-	0.00%
Construction-in-Progress	38,352	-	(38,352)	-100.00%
Subtotal	51,801,312	57,295,579	5,494,267	10.61%
Total Capital Assets	56,525,375	62,019,642	5,494,267	9.72%
Total Accumulated Depreciation	(34,023,576)	(37,038,492)	(3,014,916)	8.86%
Total Net Capital Assets	\$ 22,501,799	\$ 24,981,150	\$ 2,479,351	11.02%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$4,716,285. The infrastructure is financed through Federal, State and local contributions.

MONTCALM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 59,716
Various Resurfacing Projects and Related Land/Right-of-Way	4,656,569
Trucks/Equipment	243,348
Administrative and Engineering	5,794
Buildings	<u>792,973</u>
Total Additions	<u><u>\$ 5,758,400</u></u>

There were no installment purchase agreements entered into in 2004. The Road Commission utilized PA143 bonds sold in the latter part of 2003 for primary road infrastructure improvements and the construction of two new satellite garages in 2004.

During 2004, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$225,781, related depreciation of \$213,430, and net book value of \$12,351.

Debt

The Road Commission currently has long-term debt in the amount of \$2,152,754, a decrease of \$238,711 from the prior year. The long-term debt represents PA143 bonds, two lease-purchase agreements and compensated absences payable at September 30, 2004.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately half of its revenues from the fuel tax collected. The economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Montcalm County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Montcalm County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Montcalm County administrative offices at 619 West Main Street, Stanton, Michigan 48888.

MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2004

EXHIBIT A

ASSETS

Cash	\$ 663,285
Accounts Receivable	
State--Trunkline Maintenance	178,249
Michigan Transportation Fund	999,987
State--Other	3,480
Due From Cities/Villages	13,214
Due on Township Road Agreements	372,807
Due From Primary Government	127,878
Due From Component Unit	105,000
Inventories	
Road Materials	293,775
Equipment Parts and Materials	178,930
Restricted Cash	237,373
Capital Assets (Net of Accumulated Depreciation)	<u>24,981,150</u>
Total Assets	<u>28,155,128</u>

LIABILITIES

Current Liabilities	
Accounts Payable	723,591
Due to State of Michigan	10,805
Accrued Liabilities	30,336
Performance Bonds Payable	2,250
Noncurrent Liabilities	
Advance From State	124,130
Bonds Payable (Due Within One Year)	200,000
Bonds Payable (Due in More Than One Year)	1,600,000
Installment Purchase Agreements Payable (Due Within One Year)	18,805
Installment Purchase Agreements Payable (Due in More Than One Year)	256,634
Vested Employee Benefits Payable	<u>66,894</u>
Total Liabilities	<u>3,033,445</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	22,905,711
Restricted for County Roads	<u>2,215,972</u>
Total Net Assets	<u><u>\$25,121,683</u></u>

The Notes to Financial Statements are an integral part of this statement.

MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,219,084
Local Road Maintenance	3,436,392
State Trunkline Maintenance	991,147
Net Equipment Expense	(288,497)
Net Administrative Expense	363,051
Infrastructure Depreciation	2,653,802
Compensated Absences	(20,643)
Interest Expense	52,939
	<hr/>
Total Program Expenses	8,407,275
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	13,152
Charges for Services	1,053,214
Reimbursements	182,199
Operating Grants and Contributions	
Michigan Transportation Funds	5,905,832
Investment Earnings	217,565
Capital Grants and Contributions	
State Grants	369,655
Federal Grants	780,062
Contributions From Local Units	2,119,293
	<hr/>
Total Program Revenue	10,640,972
	<hr/>
Net Program Revenue	2,233,697
	<hr/>
General Revenue	
Taxes	524
Gain on Equipment Disposal	37,291
	<hr/>
Total General Revenues and Transfers In	37,815
	<hr/>
Change in Net Assets	2,271,512
	<hr/>
Net Assets	
Beginning of Year	22,850,171
	<hr/>
End of Year	\$25,121,683
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

MONTCALM COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2004

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 663,285
Accounts Receivable	
State Trunkline Maintenance	178,249
Michigan Transportation Fund	999,987
State Highway--Other	3,480
Due From Other Governmental Units	13,214
Due From Primary Government	127,878
Due From Component Unit	105,000
Due on County Road Agreements	372,807
Inventories	
Road Materials	293,775
Equipment Parts and Materials	178,930
Restricted Cash	<u>237,373</u>
Total Assets	<u><u>\$ 3,173,978</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 723,591
Due to State	10,805
Escrow Payable	2,250
Accrued Liabilities	30,336
Advances	
State Trunkline Equipment Purchase	65,386
State Trunkline Maintenance	<u>58,744</u>
Total Liabilities	<u>891,112</u>
Fund Equities	
Fund Balance	
Reserved for Capital Improvements	237,373
Reserved for Inventory	472,705
Unreserved and Undesignated	<u>1,572,788</u>
Total Fund Equities	<u>2,282,866</u>
Total Liabilities and Fund Equities	<u><u>\$ 3,173,978</u></u>

The Notes to Financial Statements are an integral part of this statement.

**MONTCALM COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2004**

EXHIBIT D

Total Governmental Fund Balance	\$ 2,282,866
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	24,981,150
--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(2,142,333)</u>
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Net Assets of Governmental Activities	<u><u>\$25,121,683</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

**MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2004**

EXHIBIT E

	Operating Fund
Revenues	
Taxes	\$ 524
Licenses and Permits	13,152
Federal Grants	780,061
State Aid	6,275,488
Contributions From Local Units	2,119,293
Charges for Services	1,050,477
Interest and Rents	217,565
Other Revenue	222,227
	<hr/>
Total Revenues	10,678,787
	<hr/>
Expenditures	
Public Works	9,850,568
Capital Outlay	1,003,763
Debt Service	280,321
	<hr/>
Total Expenditures	11,134,652
	<hr/>
Excess of Revenues Over (Under) Expenditures	(455,865)
	<hr/>
Fund Balance--October 1, 2003	2,738,731
	<hr/>
Fund Balance--September 30, 2004	\$ 2,282,866
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**MONTCALM COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ (455,867)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 2,479,351
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets. 227,383

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense) 20,643

Change in Net Assets of Governmental Activities \$ 2,271,510

The Notes to Financial Statements are an integral part of this statement.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Montcalm County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Montcalm County Road Commission.

NOTE A--REPORTING ENTITY

The Montcalm County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by a 3 member elected board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners, and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montcalm County Road Commission, a discretely presented component unit of Montcalm County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Montcalm County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; and 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Restricted Cash

The revenue notes of 2003 require amounts to be set aside for construction to pay the costs of the project, including the costs of issuance. The remaining funds at September 30, 2004 are classified as restricted assets for the construction of certain road improvements and facilities. As of September 30, 2004, there was a balance of \$237,373 remaining in this restricted account.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Montcalm County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Montcalm County Road Commission has capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980, except for the bridge infrastructure assets, which will be recorded during 2005. Bridge infrastructure does include bridges capitalized during 2003 and 2004.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12-50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (superintendent/manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board of road commissioners conducts a public budget hearing and, subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Road Commission has not complied with certain provisions of the act.

The following activities exceeded the amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road			
Heavy Maintenance	\$ 2,830,000	\$ 2,932,250	\$ (102,250)
Local Road			
Heavy Maintenance	1,601,700	1,724,319	(122,619)
Capital Outlay--Net	416,467	416,572	(105)

NOTE D--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91, et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 196 of 1997.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

At year-end, the Road Commission's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental</u>	
Cash	\$ 663,285	
Restricted Cash	<u>237,373</u>	
Total	<u>\$ 900,658</u>	

<u>Deposits</u>	<u>Bank Deposit</u>	<u>Carrying Amount</u>
Petty Cash and Cash on Hand		\$ 50
Bank Deposits		
Insured (FDIC)	\$ 200,000	200,000
Uninsured	<u>773,802</u>	<u>700,608</u>
Total	<u>\$ 973,802</u>	<u>\$ 900,658</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

Restricted cash is for bond proceeds remaining that are restricted to infrastructure improvements.

NOTE E--DEFERRED COMPENSATION PLAN

The Montcalm County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/2003	Additions	Deductions	Account Balances 09/30/2004
Capital Assets Not Being Depreciated				
Land	\$ 33,708			\$ 33,708
Infrastructure--Land Improvements	4,690,355			4,690,355
Subtotal	4,724,063	\$ -	\$ -	4,724,063
Capital Assets Being Depreciated				
Buildings	1,359,049	792,973		2,152,022
Road Equipment	6,146,433	238,853	222,120	6,163,166
Shop Equipment	90,249	4,495		94,744
Office Equipment	128,885	5,794	2,666	132,013
Engineer's Equipment	38,043			38,043
Yard and Storage	360,382		995	359,387
Infrastructure--Bridges	431,753	59,716		491,469
Infrastructure--Roads	43,201,416	4,656,569		47,857,985
Depletable Assets	6,750			6,750
Construction in Progress	38,352		38,352	-
Total	51,801,312	5,758,400	264,133	57,295,579
Less: Accumulated Depreciation				
Building	453,440	29,253		482,693
Road Equipment	4,933,389	529,736	209,769	5,253,356
Shop Equipment	65,363	3,660		69,023
Office Equipment	84,414	11,398	2,666	93,146
Engineer's Equipment	34,996	793		35,789
Yard and Storage	360,678		1,291	359,387
Infrastructure--Bridges	8,831	10,806		19,637
Infrastructure--Roads	28,075,715	2,642,996		30,718,711
Depletable Assets	6,750			6,750
Total	34,023,576	3,228,642	213,726	37,038,492
Net Capital Assets Being Depreciated	17,777,736	5,758,400	3,279,049	20,257,087
Total Net Capital Assets	<u>\$ 22,501,799</u>	<u>\$ 5,758,400</u>	<u>\$ 3,279,049</u>	<u>\$ 24,981,150</u>

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 529,230
Indirect Equipment	
Buildings	20,741
Shop Equipment	3,660
Net Administrative Expense	
Buildings	8,511
Office Equipment and Furniture	11,398
Other	507
Distributive Expense	
Engineer's Equipment	793
Infrastructure	<u>2,653,802</u>
Total Depreciation Expense	<u><u>\$ 3,228,642</u></u>

NOTE G--INTERFUND RECEIVABLES

The composition of the amount "Due from Other Funds" is related to various road projects and consists of the following:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Montcalm County	\$ 127,878		\$ 127,878
Montcalm County Drain Commission		<u>\$ 105,000</u>	<u>105,000</u>
Total	<u><u>\$ 127,878</u></u>	<u><u>\$ 105,000</u></u>	<u><u>\$ 232,878</u></u>

The amount due from the county is the result of a 50% reimbursement from the county for the Federal Road Project.

The amount due from the drain commission is the result of drain work performed in conjunction with the Crystal Enhancement Road Project.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balance 10/01/03	Additions (Reduction)	Balance 09/30/04	Due Within One Year
Michigan Transportation Revenue Notes (Act 143 of 1943)	\$ 2,000,000	\$ (200,000)	\$ 1,800,000	\$ 200,000
Installment Purchase Agreements New Holland Credit Company Tractor/Mower 1999	9,314	(9,314)	-	
Caterpillar Financial Services Grader 2003	168,161	(13,665)	154,496	14,223
Caterpillar Financial Services Grader 2003	125,346	(4,403)	120,943	4,582
Vested Employee Benefits Vacation	68,643	(18,223)	50,420	
Sick	18,893	(2,419)	16,474	
Total	<u>\$ 2,390,357</u>	<u>\$ (248,024)</u>	<u>\$ 2,142,333</u>	<u>\$ 218,805</u>

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Notes Payable--Michigan Department of Transportation

On August 1, 2002, the Montcalm County Road Commission borrowed \$2,000,000 at interest rates ranging from 2 to 3.4%. Payments are to be made in varying amounts for 10 years from the Michigan Department of Transportation Fund Revenue Notes of 2003 to defray the cost of constructing certain road improvements and facilities under the provisions of Public Act 143 of 1943.

Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/04</u>	<u>February Interest</u>	<u>August Interest</u>	<u>Total Annual Payments</u>
2005	\$ 200,000	\$ 23,450	\$ 23,450	\$ 246,900
2006	200,000	21,450	21,450	242,900
2007	200,000	19,450	19,450	238,900
2008	200,000	17,450	17,450	234,900
2009	200,000	15,200	15,200	230,400
2010	200,000	12,650	12,650	225,300
2011	200,000	9,750	9,750	219,500
2012	200,000	6,650	6,650	213,300
2013	200,000	3,400	3,400	206,800
Total	<u>\$ 1,800,000</u>	<u>\$129,450</u>	<u>\$129,450</u>	<u>\$ 2,058,900</u>

Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$176,944 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$1,674.96 and one payment of \$105,000. Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Payments</u>
2005	\$ 14,223	\$ 5,877	\$ 20,100
2006	14,803	5,296	20,099
2007	15,405	4,694	20,099
2008	<u>110,065</u>	<u>1,076</u>	<u>111,141</u>
Total	<u>\$154,496</u>	<u>\$16,943</u>	<u>\$171,439</u>

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$128,175 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$776.80 and one payment of \$105,000. Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Payments</u>
2005	\$ 4,582	\$ 4,740	\$ 9,322
2006	4,768	4,553	9,321
2007	4,962	4,359	9,321
2008	<u>106,631</u>	<u>1,058</u>	<u>107,689</u>
Total	<u>\$ 120,943</u>	<u>\$ 14,710</u>	<u>\$135,653</u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Vacation earned in 1 year is credited to employees on January 1st of the following year. An employee may accumulate up to and carry over from year-to-year 5 days of paid vacation.

Sick leave is no longer earned effective November 28, 1988. The hours accumulated to that date are banked, and up to 3 days per occurrence may be used from the bank, after which disability insurance goes into effect.

Upon termination of employment through retirement or death, vacation pay is payable at 100% and sick pay is payable at 100%, not to exceed 30 days payment (240 hours). Sick leave is recorded at 100% of total accumulated leave in the financial statements, up to 240 hours per employee, if available.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Montcalm County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death allowance, duty-connected death allowance, post-retirement adjustments, and death-after-retirement surviving spouse benefit. The service requirement for general employees is under the B-2 provision of the retirement contract. This requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0% of the final average compensation (FAC). The service requirement for salaried employees and commissioners is under the B-4 provision of the retirement contract. This requirement is computed using the same criteria as the B-2 provisions except a sum of 2.5% of the FAC is used. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a 1.5% contribution from general employees and a 3.5% contribution from salaried employees and commissioners. The employees contributed \$45,367 during the calendar year ended December 31, 2003. The Road Commission is required to contribute at an actuarially determined rate; the rate was 6.86% for general employees and 14.89% for the salaried employees and commissioners for the calendar year ending December 31, 2003.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

For the year ended December 31, 2003 the Road Commission's annual pension cost was \$344,664. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

<u>Year Ended September 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
2001	\$ 460,290	100%
2002	364,047	100%
2003	344,664	100%

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/2001	\$ 6,177,387	\$ 7,057,158	\$ 879,771	88%	\$ 1,916,615	46%
12/31/2002	6,531,184	7,691,890	1,160,706	85%	2,025,510	57%
12/31/2003	7,193,892	9,766,582	2,572,690	74%	1,805,672	142%

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims other than dental and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Montcalm County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

Dental claims are paid by the Road Commission to the employee up to a maximum per household. Benefits lapse at year end.

NOTE K--POST-EMPLOYMENT BENEFITS

Montcalm County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for health and vision insurance and prescription drugs, including spouse, for all vested employees who retire at age 60. The employer continues to pay the premiums until age 65. At age 65, retirees must reimburse the employer for the cost of insurance. For employees choosing to retire at age 55 with at least 15 years of service during an open window period, the Road Commission will pay ½ of the retiree's/spouse's monthly health insurance premium until the retiree turns age 60. The Road commission pays 100% of the retiree's health insurance premium from age 60-65.

Currently, 12 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission for the fiscal year ending September 30, 2004 totaled \$80,127. The expenditures are recognized as the insurance premiums become due on a pay-as-you-go-basis.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal aid received and expended by the Road Commission was \$780,062 for contracted projects and \$278,995 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

NOTE M--CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE N--STATE TRUNKLINE MAINTENANCE REVENUE

The \$50,798 difference between the State trunkline maintenance revenues of \$1,032,063 and expenditures of \$981,265 is primarily due to the Michigan Department of Transportation (MDOT) trunkline maintenance audit of the 2002 agreement. The 2002 maintenance audit adjustment was \$60,237, which was properly recorded as an increase to the current year's revenue. The expenditures included \$9,200.15, which had not been reported in the monthly billings to MDOT and there was also an un explained variance of \$239, which was not reimbursed.

MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2004

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
National Forest Reserve	\$ 500	\$ 524	\$ 524	-
Licenses and Permits				
Permits	10,000	13,000	13,152	\$ 152
Federal Grants				
Critical Bridges	2,800	-	-	-
Surface Transportation Program	951,810	458,386	454,662	(3,724)
Economic Development D Funds	1,007,810	328,064	325,399	(2,665)
Enhancement Funds	223,329	-	-	-
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,140,861	3,323,197	3,333,931	10,734
Local Road	2,366,329	2,503,702	2,511,788	8,086
Urban Primary	37,560	39,808	39,869	61
Urban Local	9,410	9,873	9,989	116
Snow Removal	240	270	255	(15)
Critical Bridge	525	-	-	-
Economic Development Fund				
Rural Primary (D)	605,438	323,500	324,598	1,098
Trunkline Turnback	43,500	43,500	45,058	1,558
Contributions--Local Units				
Townships	1,546,754	1,795,101	1,805,516	10,415
Other Governmental	-	315,399	313,777	(1,622)
Charges for Services				
State Trunkline Maintenance	658,000	1,041,500	1,032,063	(9,437)
State Trunkline Non-Maintenance	-	9,883	9,883	-
Charge for Services/Sales	-	3,000	3,017	17
Salvage Sales	1,000	5,500	5,514	14
Interest and Rents				
Interest Earned	15,000	15,000	13,967	(1,033)
Dividends	50,000	201,000	203,598	2,598
Other Revenue				
Sundry Refunds	500	1,000	1,030	30
Other			2,737	2,737
Gain on Road Equipment Disposals	40,000	37,291	37,291	-
Total Revenues	10,721,366	10,659,667	\$ 10,678,787	\$ 19,120
Fund Balance--October 1, 2003	1,905,650	1,905,650		
Total Budget	\$ 12,627,016	\$ 12,565,317		

MONTCALM COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2004

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 3,339,696	\$ 2,830,000	\$ 2,932,250	\$ (102,250)
Maintenance	1,050,476	1,225,000	1,219,084	5,916
Local Road				
Heavy Maintenance	1,881,657	1,601,700	1,724,319	(122,619)
Maintenance	2,460,826	3,450,150	3,435,011	15,139
Primary Road Structure				
Maintenance	9,000	-	-	-
Local Road Structure				
Heavy Maintenance	-	61,500	59,716	1,784
Maintenance	5,000	1,465	1,381	84
State Trunkline				
Maintenance	874,905	982,315	981,265	1,050
Non-Maintenance	-	9,900	9,883	17
Non-Road Project	-	-	-	-
Equipment Expense--Net	(515,881)	(277,540)		
Direct			\$ 1,233,799	
Indirect			328,280	
Operating			288,404	
Less: Equipment Rentals			<u>(2,138,683)</u>	10,660
Fringe Benefits	1,062,720	-	-	-
Distributive Expenses	355,965	-	-	-
Administrative Expense--Net	183,149	366,735		
Administrative Expense			456,541	
Less: Overhead--State Trunkline			(80,567)	
Overhead--Other			(1,185)	
Purchase Discounts			<u>(11,739)</u>	3,685
Capital Outlay--Net	368,715	416,467		
Capital Outlay			1,003,763	
Less: Depreciation Credits			(574,840)	
Equipment Retirements			<u>(12,351)</u>	(105)
Debt Service				
Principal	218,068	227,383	227,383	-
Interest and Fiscal Fees	<u>51,352</u>	<u>52,938</u>	<u>52,938</u>	-
Total Expenditures	11,345,648	10,948,013	<u>\$ 11,134,652</u>	<u>\$ (186,639)</u>
Fund Balance--September 30, 2003	<u>1,281,368</u>	<u>1,617,304</u>		
Total Budget	<u>\$ 12,627,016</u>	<u>\$ 12,565,317</u>		

MONTCALM COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2004

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,868,890	\$ 4,344,892	\$ 1,465,005	\$10,678,787
Total Expenditures	4,498,634	5,243,541	1,392,477	11,134,652
Excess of Revenues Over (Under) Expenditures	370,256	(898,649)	72,528	(455,865)
Other Financing Sources and (Uses)				
Optional Transfer	(898,649)	898,649		-
Interfund Transfer	300,133		(300,133)	-
Total Other Financing Sources and (Uses)	(598,517)	898,649	(300,133)	-
Excess of Revenues and Other Sources and (Uses) Over (Under) Expenditures	(228,261)	-	(227,604)	(455,865)
Fund Balance--October 1, 2003	228,261	-	2,510,470	2,738,731
Fund Balance--September 30, 2004	\$ -	\$ -	\$ 2,282,866	\$ 2,282,866

MONTCALM COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended September 30, 2004

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
National Forest Reserve			\$ 524	\$ 524
Licenses and Permits				
Permits			13,152	13,152
Federal Grants				
Contracted				
Surface Transportation Program	\$ 315,165			315,165
Economic Development D Funds	185,902			185,902
Negotiated				
Surface Transportation Program	139,497			139,497
Economic Development D Funds	139,497			139,497
State Grants				
Michigan Transportation Fund				
Engineering	5,703	\$ 4,297		10,000
Allocation	3,333,931	2,511,788		5,845,719
Urban	39,869	9,989		49,858
Snow Removal	146	109		255
Critical Bridge Funds	-			-
Economic Development Fund				
Rural Primary (D)	324,598			324,598
Trunkline Trunback	45,058			45,058
Contributions From Local Units				
Townships	-	1,805,516		1,805,516
Other Governmental Contributions	300,584	13,193		313,777
Charges for Services				
State Trunkline Maintenance			1,032,063	1,032,063
State Trunkline Non-Maintenance			9,883	9,883
Private Driveway Fees			-	-
Salvage Sales			5,514	5,514
Charge for Services/Sales			3,017	3,017
Interest and Rents				
Interest Earned	1,165	-	12,802	13,967
Dividend			203,598	203,598
Other Revenue				
Private Contributions	15,400	-	165,769	181,169
Sundry Refunds			1,030	1,030
Other			2,737	2,737
Gain on Equipment Disposal	22,375		14,916	37,291
Total Revenues	\$ 4,868,890	\$ 4,344,892	\$ 1,465,005	\$ 10,678,787

MONTCALM COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2004

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 2,932,250			\$ 2,932,250
Maintenance	1,219,084			1,219,084
Local Road				
Heavy Maintenance		\$ 1,724,319		1,724,319
Maintenance		3,435,011		3,435,011
Local Road Structures				
Heavy Maintenance		59,716		59,716
Maintenance		1,381		1,381
State Trunkline				
Maintenance			\$ 981,265	981,265
Non-Maintenance			9,883	9,883
Equipment Expense--Net (Per Exhibit H)	(63,461)	(179,118)	(45,621)	(288,200)
Administrative Expense--Net (Per Exhibit H)	160,818	202,232		363,050
Capital Outlay--Net (Per Exhibit H)	249,943		166,629	416,572
Debt Service				
Principal	-		227,383	227,383
Interest and Fiscal Fees	-		52,938	52,938
Total Expenditures	\$ 4,498,634	\$ 5,243,541	\$ 1,392,477	\$ 11,134,652



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

January 28, 2005

Board of County Road Commissioners
Montcalm County
619 West Main Street
P.O. Box 337
Stanton, Michigan 48888

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Montcalm County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance, which we have reported to management of Montcalm County Road Commission in the accompanying comments and recommendations.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Montcalm County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur

and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Montcalm County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MONTCALM COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

Uniform Budgeting and Accounting Act Provisions--Expenditures

Finding 04-1

Condition: As detailed in Exhibit H, expenditures in 4 of 17 activities exceeded the final amended budget, and expenditures exceeded the budget in total.

Criteria: The expenditure of funds in excess of the budget is contrary to the provisions of Public Act 2 of 1968, as amended, which provides, in part, as follows:

"Except as otherwise provided in Section 19, a deviation from the original general appropriations act (budget) shall not be made without amending the general appropriations act. The legislative body (board of county road commissioners) of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

Section 18(3) also provides, in part, that:

"...except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

Recommendation: We recommend that the Road Commission comply with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, being Sections 141.421-141.440 of the Michigan Compiled Laws.